

September 17, 2010

## **CMS approves AAC drug pricing method, dispensing fee increase**

A new federally-approved change in how Alabama Medicaid reimburses pharmacies for drugs provided to Medicaid recipients now makes it possible for the Agency to implement a reimbursement system that more accurately reflects the true estimated acquisition costs for drugs and the cost of dispensing them. The changes will be effective for outpatient pharmacy claims on September 22, 2010.



The Centers for Medicare and Medicaid Services (CMS) notified the Agency September 16 that the state's request to remove Average Wholesale Price (AWP) from the "lower of" reimbursement methodology now in use, and add the invoice-based Average Acquisition Cost (AAC) method for brand and generic drug ingredient costs was approved. CMS also approved a companion request to increase the Agency's dispensing fee from \$5.40 per prescription to \$10.64 per prescription based on an independent Cost of Dispensing (COD) survey.

"Implementation of this ground-breaking reimbursement system is a tribute to the collaborative effort that has taken place between the Agency, state and national pharmacy associations, pharmacy providers and other interested stakeholders to develop a system that is fair to all parties and transparent to the public," said Alabama Medicaid Commissioner Carol Steckel, noting that federal officials have expressed interest in using Alabama's AAC model as an example for other states to follow.

According to Alabama Medicaid Commissioner Carol Steckel, the decision to move away from AWP pricing is directly related to a recent Alabama Supreme Court decision that reversed three verdicts that said Alabama Medicaid had been overcharged by drug manufacturers. In reversing the lower court verdicts, the Alabama Supreme Court criticized the state for not changing its pricing methodology since taking issue with the pharmaceutical manufacturers' price reporting methods.

The Agency has contracted with Myers & Stauffer, a nationally recognized accounting firm, to conduct the semi-annual invoice surveys needed to calculate AAC for each drug. Each individual pharmacy will be randomly selected once during a two-year period and required to submit one month's worth of invoices. Pharmacies may submit invoices by mail, fax, or electronically, or may choose to have their wholesalers coordinate directly with Myers & Stauffer. Continuing with the Agency's current policy, drug prices will be updated on a weekly basis, and providers may submit specific pricing issues for research 24 hours a day through a web-based submission process.

"Our Agency has been studying ways to improve this system long before the lawsuits were filed in 2005. We began work on this particular effort in December of 2007 and have been fortunate to have the active involvement of pharmacy provider associations throughout this process," said Kelli Littlejohn, Pharm.D., Director of Pharmacy Services for Alabama Medicaid.

Now that the AAC and the dispensing fee system have been approved, Dr. Littlejohn emphasized that the Agency will continue its efforts to recognize additional professional services provided by pharmacists.

“We will continue to work closely with our provider groups as we develop the next phase to include pharmacies in creating a medical neighborhood for our patient which will include reimbursing pharmacies for other professional services. We are moving forward on that initiative now and look forward to swift approval,” she said.